

Message Text

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51

ACTION EA-14

INFO OCT-01 NEA-14 ISO-00 SP-03 AID-20 EB-12 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FEA-02 INT-08

SCI-06 AGR-20 SWF-02 DRC-01 /211 W

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R 030936Z OCT 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4733

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY JIDDA

AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

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HONG KONG PASS TREASURY REPRESENTATIVE GORDON

EO 11652: N/A

TAGS: EFIN ENRG ID JN

SUBJ: DEVELOPMENTS IN INDONESIAN EXPORT AND
FOREIGN EXCHANGE POSITION

REF: A. JAKARTA A165 SEPT 18, 1974

B. JAKARTA A108 JUNE 5, 1974

C. JAKARTA 10535, PARA 4

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1. SUMMARY: INDONESIAN EXPORTS, PARTICULARLY OIL,

CURRENTLY BELOW EARLIER EXPECTATIONS, FORESHADOWING LOWER FOREIGN EXCHANGE ACCUMULATIONS THAN PREVIOUSLY FORESEEN. HIGH STOCKS AND SEASONALLY LOW DEMAND FOR OIL IN JAPAN ONE FACTOR. SHARP SLUMP IN TIMBER AND DECLINE IN OTHER EXPORT PRICES AND VOLUMES CONTRIBUTED. END SUMMARY

2. PRELIMINARY BANK INDONESIA TRADE DATA FOR FIRST 6-7 MONTHS 1974 SHOW LOWER LEVEL OF EXPORT EARNINGS THAN WE PREVIOUSLY ANTICIPATED. OIL EXPORTS FOR SIX MONTHS TOTAL \$2.6 BILLION. (SECOND QUARTER OIL EXPORTS RAN AT ANNUAL RATE OF \$5.4 BILLION, ROUGHLY \$600 MILLION BELOW ANNUAL RATE WE EXPECTED. MORE RECENTLY HIGH STOCKS AND SLOW SUMMER DEMAND IN JAPAN, COMBINED WITH TECHNICAL PROBLEMS, REDUCED INDONESIA'S SEPTEMBER OUTPUT FROM 1.4 MILLION B/D TO ROUGHLY 1.2 MILLION B/D, BUT OUTPUT AGAIN BACK TO NORMAL BY EARLY OCTOBER. PERTAMINA PRESIDENT DR IBNU SUTOWO RECENTLY ESTIMATED CURRENT YEAR OIL EXPORTS AT \$5.5 BILLION, WHICH APPEARS CONSISTENT WITH THESE DEVELOPMENTS. PERTAMINA PRICE DISCUSSIONS WITH

PRODUCING COMPANIES JUST CONCLUDED, CONTINUE THROUGH THIRD QUARTER CURRENT \$12.60/BARREL REALIZED PRICE.

3. SEVEN MONTH DATA FOR NON-OIL EXPORTS SHOW STRONG EARNINGS, OF \$1.3 BILLION, REFLECTING HIGH EXPORT PRICES PREVALENT THROUGH MAY. BECAUSE OF AN ESTIMATED AVERAGE 30 PERCENT PRICE DECLINE FROM THIS AND CUTBACKS IN EXPORT VOLUMES, TOTAL CY 1974 NON-OIL EXPORTS OF ROUGHLY \$2 BILLION APPEAR LIKELY. AMONG EXPORT SECTORS, TIMBER PRESENTLY SUFFERING MOST. WITH LARGE STOCKS OF CUT TIMBER CLOGGING PORTS, GOVERNMENT RECENTLY ORDERED 10-15 PERCENT CUTBACK IN TIMBER PRODUCTION FOR EXPORT. REDUCED DEMAND FROM JAPAN SAID TO HAVE BROUGHT PRICES DOWN 40-50 PERCENT.

4. FOREIGN EXCHANGE RESERVES (INCLUDING GOLD) ROSE FROM \$824 MILLION ON DECEMBER 31, 1973 TO ABOUT 1.30 BILLION IN LATE APRIL, AND TO A PEAK OF \$1.85 BILLION IN THIRD WEEK OF JULY 1974. THEY THEN BEGAN LIMITED OFFICIAL USE

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STEADY DECLINE TOTALLING \$200 MILLION, TO \$1.66 BILLION EARLY SEPTEMBER. IF RESERVE TREND FOLLOWS USUAL PATTERN, WE SHOULD SEE FURTHER DECLINE UNTIL OIL CONTRACTOR TAX PAYMENTS TO GOVERNMENT BEGIN MID SEPTEMBER AND PEAK IN MID OCTOBER.

5. IN CONVERSATION WITH AMBASSADOR NEWSOM, INDONESIA'S PLANNING CHIEF, PFOR WIDJOJO INDICATED INTENT TO

MAINTAIN FOREIGN EXCHANGE RESERVE OF \$1.6 BILLION, UTILIZING ACCUMULATIONS ABOVE THIS LEVEL FOR STOCKING ESSENTIAL COMMODITIES (RICE FERTILIZER CEMENT IRON AND STEEL, COTTON), TO FINANCE PROJECT OVERRUNS, TO ACCELERATE IMPLEMENTATION OF CRITICAL PROJECTS SUCH AS TANJUNG PRIOK PORT IMPROVEMENT, AND FOR ACQUISITION OF DEFENSE MATERIAL. EMBASSY SEES INCREASED INSTANCES OF EFFORTS IN THESE DIRECTIONS, EG (A) GOI HAS IN FACT BUILT UP STOCKS OF CONSUMER ESSENTIALS TO PROTECT PRICE STABILITY DURING TRADITIONAL HIGH CONSUMPTION PERIOD FOLLOWING MOSLEM FASTING MONTH, ENDING OCTOBER 28; (B) GOI RECENTLY CONTRACTED FOR MAJOR COVERED AND OPEN STORAGE OF 128 HECTARES TO ALLEVIATE CONGESTION IN TANJUNG PRIOK, USING ACCUMULATED RESERVES.

6. WHILE 1974 RESERVE ACCUMULATIONS THROUGH JULY WERE SUBSTANTIAL, EVIDENCE IS GROWING THAT CY 1974 EXPORTS AND FX ACCUMULATIONS BELOW MORE OPTIMISTIC PREVIOUS EXPECTATIONS.

NEWSOM

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